

SUBCOMMITTEE NO. 4

Agenda

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Agenda – Part A

Wednesday, April 9, 2008

9:30 a.m.

Room 113

Consultant: Brian Annis

State Treasurer and Related Boards/Committees/Authorities

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Department Budgets Proposed for Consent / Vote Only

(See consolidated vote-only recommendation on page 3)

0954 Scholarshare Investment Board

The ScholarShare Investment Board sets investment policies and oversees all activities of ScholarShare, the State's 529 college investment plan. The program enables Californians to save for college by putting money in tax-advantaged investments. After-tax contributions allow earnings to grow tax-deferred, and disbursements, when used for tuition and other qualified expenses, are federal and state tax-free. The ScholarShare Investment Board also oversees the Governor's Scholarship Programs and California Memorial Scholarship Program. The proposed budget for the Board is \$2.3 million (\$952,000 General Fund) and 7.0 positions, a decrease of \$52,000 and no change in positions. This budget includes a \$105,000 General Fund reduction that is related to lower contract costs for the Governor's Scholarship Program. The Governor's Scholarship Program was a new General Fund program implemented in 2000, but discontinued in 2003 due to General Fund pressures. Costs continue today, but are annually diminished as the awards granted in years 2000 through 2002 are paid.

0959 California Debt Limit Allocation Committee

The California Debt Limit Allocation Committee's mission is to allocate tax-exempt private activity bond authority for the State of California. Private activity bonds may only be used by the private sector for projects and programs that provide a public benefit. The major public benefit in California is the creation of affordable housing. The proposed budget for the Committee is \$1.2 million (California Debt Limit Allocation Committee Fund) and 9.0 positions, an increase of \$16,000 and no change in positions. No budget change proposals were submitted for the Committee.

0965 California Industrial Development Financing Advisory Commission

The California Industrial Development Financing Advisory Commission creates employment opportunities and supports local economic development. The Commission meets this goal by approving local entities' issuance of Industrial Development Bonds (IDBs). The IDBs provide manufacturers with a low-cost financing option to build or expand their operations. The proposed budget for the Commission is \$331,000 (Industrial Development Fund) and 1.0 position, a decrease of \$4,000 and no change in positions. No budget change proposals were submitted for the Commission.

0971 California Alternative Energy and Advanced Transportation Financing Authority

The mission of the California Alternative Energy and Advanced Transportation Financing Authority is to promote the prompt and efficient development of energy sources which are renewable or which more efficiently utilize and conserve scarce energy resources. The proposed budget for the Authority is \$204,000 (California Alternative Energy Authority Fund) and 1.0 position, a decrease of \$2,000 and no change in positions. No budget change proposals were submitted for the Authority.

0977 California Health Facilities Financing Authority

The California Health Facilities Financing Authority issues revenue bonds to assist qualified private nonprofit corporations or associations, counties, and hospital districts in financing or refinancing the construction, equipping or acquiring of health facilities. The Authority also administers the Children's Hospital Program established by Proposition 61. The proposed budget for the Authority is \$1.4 million (various special funds) and 14.5 positions, an increase of \$27,000 and no change in positions. The budget also includes \$250.0 million in local assistance grants (special fund). No budget change proposals were submitted for the Authority.

0985 California School Finance Authority

The California School Finance Authority oversees the statewide system for the sale of revenue bonds to reconstruct, remodel or replace existing school buildings, and to acquire new school sites and buildings to be made available to public school districts, charter schools, and community colleges, and to provide access to financing for working capital and capital improvements. The proposed budget for the Authority is \$1.1 million (various special funds) and 4.9 positions, an increase of \$14,000 and no change in positions. The budget also includes \$9.7 million in local assistance grants (federal funds). No budget change proposals were submitted for the Authority.

Staff Comment: No issues have been raised with the budgets listed above.

Staff Recommendation: Approve all the consent / vote only budgets.

Vote:

Department Budgets Proposed for Discussion

0950 State Treasurer

The State Treasurer's Office (STO), a constitutionally established office, provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other state agencies.

The Governor proposes expenditures of \$26.8 million (\$6.4 million General Fund) and 239 positions – an increase of \$939,000 (a General Fund decrease of \$554,000) and an increase of 11 positions. Included in these numbers, is a proposed cut of \$715,000 to help close the General Fund deficit. The non-General Fund expenditures of the Treasurer's Office are supported by reimbursements for services provided to other State departments and local governments.

The proposed budget included \$619,000 (reimbursements) and 4.7 positions to implement the Treasurer's Office portion of the Financial Information System for California (FI\$CAL) information technology project, which would be coordinated by the Department of Finance. Action on this item should be deferred at this hearing, and then made to conform to the action the Subcommittee takes on the FI\$CAL when the Department of Finance is heard.

Issues Proposed for Consent / Vote Only:

- 1. Pooled Money Investment Account Loan Program (BCP #5).** The State Treasurer's Office requests \$277,000 to accommodate an increase in the cost of accounting services for the Pooled Money Investment Account (PMIA) Loan Program. The PMIA loan program provides interim financing for the General Obligation Bond Program. The STO contracts with the State Controller's Office (SCO) for accounting services to administer the PMIA loan program. The SCO's workload and costs are up due to the \$43 billion in General Obligation bonds approved by the voters in the November 2006 election. This request conforms to an SCO budget request which was approved by the Subcommittee on March 26.

2. Revenue-Generating Proposals (BCPs #3 & #4). The State Treasurer's Office submitted 2 budget proposals requesting \$216,000 (General Fund and reimbursements) and 2.0 positions to more effectively manage cash and generate additional special fund and General Fund earnings. The specific requests are as follows:

- BCP #3 increases reimbursement authority by \$90,000, increases General Fund by \$18,000, and adds 1.0 position (two-year limited-term) to research and validate disbursement data to increase the reliability of the cash forecast, the results of which would be better investment decisions and hence, higher investment returns (increased annual earnings of \$6 million General Fund and \$24 million other funds).
- BCP #4 increases reimbursement authority by \$45,000, increases General Fund by \$63,000, and adds 1.0 position (two-year limited-term) to maximize the investment of surplus funds in a more-timely manner through the faster collection of payments. The goal is to enroll 20-30 agencies per year in new electronic funds programs to reduce processing fees and increase investment earnings. (the General Fund benefit is estimated at \$300,000, growing to \$2.5 million over several years).

Staff Recommendation: Approve all the consent / vote only issues.

Vote:

Issues Proposed for Discussion and Vote:

3. Local Agency Investment Fund (LAIF) Position (BCP #2). The State Treasurer's Office requests \$108,000 and 1.0 position to improve investment service and address increased workload for local governments who voluntarily choose to deposit their temporarily idle monies with the Treasurer for investment purposes. The local funds are commingled with the State's idle cash balances and invested in the Pooled Money Investment Account (PMIA). About \$19.5 billion was held in the LAIF in 2006-07.

Staff Comment: The Treasurer's Office indicates that pooling the monies results in a higher rate of return for the local funds as well as State special funds and the State General Fund. No estimate of increased earnings is included in the request; however, the Treasurer's staff indicate that this request would pay for itself with increased earnings.

Staff Recommendation: Approve this request.

Vote:

- 4. Cash Management for State Departments (BCP #2).** The State Treasurer's Office requests \$210,000 and 3.0 positions to increase their reimbursement authority to tie to new interagency agreements signed with the Department of Social Services and the Department of Public Health. The increase is driven by a workload increase from the contracting department, not a fee increase by the Treasurer. The Department of Social Services contracts with the STO to process transactions for their In-Home Support Services (IHSS) Program, which will have transaction growth of 7 percent from FY 2006-07 to FY 2008-09. The Department of Public Health contracts with the STO for redeeming and reconciling all checks, warrants and Women, Infant and Children (WIC) Food Instruments. The WIC workload is up because a recent change in federal law allows WIC recipients to purchase WIC qualified items at any grocer whereas, prior to the change, recipients were required to present WIC items only to designated grocers.

Staff Comment: The Treasurer's Office indicates that if the request is denied, they will have to add more temporary help and increase overtime to address the workload. Additionally, if requirements are not met for the federal WIC program there is a risk of federal sanctions.

Staff Recommendation: Approve this request.

Vote:

- 5. IT Division Staff Augmentation (BCP #1).** The State Treasurer's Office requests \$269,000 and 2.5 information-technology positions to support new/increased workload for the STO, as well as workload for the Boards/Commissions/Authorities associated with the STO. The 2.5 new positions would be tasked as follows: (1) one Staff Information Systems Analyst to assist the existing position that supports the STO website; (2) one Staff Programmer Analyst to address the increasing number of requests from Boards/Commissions/Authorities with the development of new applications and enhancements; and (3) one-half System Software Specialist position to assist the Network Architect and the Security Architect with day-to-day maintenance and support of the network and security architectures as well as the implementation of new network/security strategies, policies, and projects.

Staff Comment: This request is funded by reimbursements from the Boards/Commissions/Authorities, as well as reimbursements from State departments and local government. On the margin, this request could put additional pressure on those State and local entities that are suffering from General Fund or other reductions. Given this, the Subcommittee may want to consider rejection of this request without prejudice to reconsideration in a future year when the State budget situation is not so constrained.

Staff Recommendation: Reject this request.

Vote:

6. General Fund Budget Reduction (Governor's Budget and April Finance Letter).

The Governor's Budget includes a 10-percent unallocated reduction (\$715,000) to the General Fund component of the STO budget. The April Finance letter requests budget changes related to how the Treasurer would implement the proposed reduction.

Staff Comment: As outlined in the April Finance Letter, the STO would transfer the Vault Services Section (VSS) from the Cash Management Division (CMD) to the Securities Management Division (SMD) where staff could consolidate some activities to create efficiencies. A net of 5 General Fund positions would be eliminated with 2.0 positions shifted to reimbursements. Also included is an \$184,000 cut to the operating expense budget.

Staff Recommendation: Approve this request.

Vote:

0956 California Debt & Investment Advisory Commission

The mission of the California Debt and Investment Advisory Commission is to promote and improve the practice of public finance in California by providing responsive and reliable information, education, and advice. The Commission assists state and local governments by providing education and information related to the effective and efficient issuance, monitoring, and management of public debt and prudent and safe investment of public funds. The proposed budget for the Commission is \$2.6 million (special fund and reimbursements) and 17.0 positions, an increase of \$247,000 and 3.0 positions. No budget change proposals were submitted for the Committee.

Issues Proposed for Discussion and Vote:

- 1. IT Data Collection and Analysis Unit (BCP #1).** The Commission requests 1.0 new Associate Program Specialist position to be funded through redirection of existing budget authority and requests 1.0 new Staff Services Manager position to be funded from a budget augmentation of \$127,000. Additionally, \$40,000 is requested for an IT contract with the Treasurer's Office associated with STO BCP #1 (see issue 5 above). The positions would improve the reliability and consistency of the municipal debt issuance data that CDIAC compiles.

Staff Comment: On the margin, this request could put additional pressure on those local entities that are suffering from General Fund or other reductions. The Subcommittee may alternatively want to consider rejecting the new funding, but allowing the Commission to add 1.0 position through redirection of existing budget authority.

Staff Recommendation: Reject the requested budget augmentation, but allow the addition of 1.0 new position to be funded within existing budget authority.

Vote:

- 2. Shift Contractor Work to State Staff – Graphic Designer (BCP #2).** The Commission requests the establishment of a new Graphic Designer position. The position would be entirely funded within existing budget authority by shifting operating expenses funding to personnel services funding. The position would develop and produce graphic design work for all of the Commission's written products.

Staff Comment: Since the Commission's role is educational and advisory, it may make sense to have an in-house Graphic Designer, versus contracting out.

Staff Recommendation: Approve the request.

Vote:

- 3. Educational Seminars / Workshops (BCP #4).** The Commission requests a \$50,000 increase in reimbursement authority to increase capacity and the number of events for educational seminars/workshops. The Commission indicates it currently has to turn away about 30 percent of requests for seminars/workshops due to the full expenditure of its reimbursement authority.

Staff Comment: The Commission's primary role is educational and advisory. The cost of the educational seminars/workshops is funded by attendees, and attendance is discretionary for local governments.

Staff Recommendation: Approve the request.

Vote:

0968 California Tax Credit Allocation Committee

The mission of the Tax Credit Allocation Committee is to form public/private partnerships to assist in the development and maintenance of quality rental housing communities affordable to low-income Californians. The January Governor's Budget for the Committee is \$4.0 million (various special funds) and 29.0 positions, a decrease of \$218,000 and no change in positions.

Issue Proposed for Discussion and Vote:

- 1. Compliance Monitoring Staff and Contracts (April Finance Letter).** The Tax Credit Allocation Committee requests \$674,000 (special fund) and 4.0 positions to allow the Committee to meet monitoring requirements mandated by the federal Internal Revenue Code. The budget request of \$674,000 includes \$449,000 for contractors and assumes only 2.0 of the 4.0 new State positions are staffed in 2008-09. The Administration indicates that federal law requires the State to complete an on-site physical inspection of each property within two years following the year that the last building was placed into service, and then re-inspect each property at least once every three years thereafter. Currently, there are nearly 2,000 properties that are subject to these requirements, and that number is growing by about 100 per year.

Staff Comment: The April Finance Letter indicates that denial of this request will cause a failure to meet basic federal compliance monitoring requirements and this could eventually result in the denial of future federal tax credits.

Staff Recommendation: Approve the request.

Vote: